



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Farmers Bank, Windsor, VA

Person to be contacted regarding this report:	Kristy DeJarnette
CPP Funds Received:	\$8,752,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	1/23/2009
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	2429
City:	Windsor
State:	Virginia

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	Subsequent to the receipt of the CPP equity on January 23, 2009, Farmers Bank originated new loans totaling more than \$45mm for the remainder of 2009. We were also able to renew more than \$78mm to our customers.
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<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	We were able to support lending in commercial and consumer loans during 2009 including second mortgages to households and equity lines of credit.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	Our initial projections for use of the funding included increased loan demand as we were hopeful that the economic downturn would be shorter in duration. The lack of loan demand in our market afforded us an opportunity to purchase municipal securities, CMO and MBS.
<input checked="" type="checkbox"/>	Make other investments	Upon notification from the Treasury Department that we were approved for the CPP, we successfully invested \$500,000 into a program to support our community reinvestment act responsibilities which was channeled into a local nursing home facility to support a safer environment for residents.
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	The economic downturn has had a significant impact upon our community and as a result, our loan portfolio has seen a material increase in past due and non performing loans. During 2009, we set aside more than \$5.8mm for reserves increasing the allowance for loan losses by just under 100%.

<input type="checkbox"/>	Reduce borrowings	
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	While we did deploy a majority of the capital we received into our loan and investment portfolios, we retained a portion in a non leveraged position to increase capital ratios for future economic uncertainty.

What actions were you able to avoid because of the capital infusion of CPP funds?

During the later part of 2008 and early 2009 we saw a significant increase in deposit growth from consumers and businesses in our local communities seeking safety from a very tumultuous banking environment. Our capital ratios, because of this increase in deposits, had become stretched thin and our election to take CPP funding in late 2008 allowed us to take on these deposits that may have otherwise been avoided to protect capital ratios. In fact, between September 30, 2008 and February 29, 2009 the Bank experienced a 16.8% growth in deposits (an annualized rate of more than 40%) which put some strain on our strong capital ratios. As a result of this growth, capital ratios between December 31, 2007 and December 31, 2008 decreased by 11.8% (Tier 1 Leverage Ratio) and 9.4% (Total Risk Based Capital Ratio).

In the lending portfolio, while total loan balances declined during 2009 as a result of increases in non performing assets, liquidations and increased repayments of outstanding balances, we closed more than \$123mm (the combination of new and renewed loans) in loan volume which is more than fourteen times the amount of CPP funds that the bank received from the Treasury's investment. Without the CPP investment, it is possible that some of the credit we provided would have been reduced to protect declining capital ratios.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The increased liquidity that we received from depositors in our local community were initially targeted to provided lending growth that we believed would be needed as other financial institutions appeared to be curtailing certain lending activities. However, as we previously discussed, as the economic problems became more severe, we saw a decreased demand for loans as consumers and businesses sought to reduce debt ratios and increase cash flow. This problem was compounded by decreasing asset values which kept new investors from seeking acquisition loans further dampening both consumer and commercial credit demand.

Our increased purchases in the investment portfolio, while small compared to much larger banks, helped to provide liquidity in the market during a significant period of dislocation. Between October 2008 and February 2009, Farmers Bank had purchased, on a net basis, more than \$63mm in investment securities.

The increased investment portfolio provided a source of strong liquidity for the Farmers Bank and was a source of substantial earnings for our company. In fact, despite decreased loan balances during 2009, net interest income actually increased by more that 28% which further enhanced our ability to set aside reserves as the loan portfolio began to feel the impact of the recession.

Finally, to be conservative, we elected to retain a portion of the capital in a non leveraged position for future uncertainty which increase our Tier 1 Leverage Ratio by 11.2% from December 31, 2008 to December 31, 2009 and our Total Risk Based Capital Ratio by 30.6% during the same period.

The cascading effect of Treasury's investment in Farmers Bank was to allow us to provide a safe haven to depositors during the unprecedented credit crisis, allowed us to keep our lending channels open to serve our community and enhance earnings through the purchase of investment securities. To date we have paid more than \$500,000 in dividends to the Treasury and issued preferred shares valued at more than \$437,000. We believe this program has benefitted our community both directly and indirectly and are proud of our ability to contribute positively as a result of our inclusion in the CPP.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

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According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.